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CITY HALL • 303 WEST COMMONWEALTH AVENUE •

FULLERTON, CALIFORNIA 92632 • PH. (714) 525-7171

June 23, 1978

Jack Leister, Head Librarian
Institute of Governmental Studies
109 Moses Hall
University of California
Berkeley, California 94720

Dear Sir:

In response to Director Eugene C. Lee's request for information for your studies on "Implementation of Proposition 13," I am sending you copies of a report to the Fullerton City Council on the "Impact of the Jarvis-Gann Initiative" and a list of "Revenue Item Adjustments" totaling nearly one-half million dollars which the Fullerton City Council adopted on June 2, 1978.

I will forward additional information on the subject from this city as it is developed.

Very truly yours,

LESLIE R. WHITE
City Manager

LRWoc

Enc.

CITY HALL • 303 WEST COMMONWEALTH AVENUE •

CALIFORNIA

FULLERTON, CALIFORNIA 92632 • PH. (714) 525-7171

May 25, 1978

Honorable City Council
City Hall
Fullerton, California

Re Council Agenda 5/30/78

Subject: IMPACT OF JARVIS-GANN INITIATIVE

INTRODUCTION

In the staff's report to you dated 2/22/78, it was stated that property taxes would be reduced about 44% if Proposition 13 is successful, which would create a revenue shortfall of about 13% ($2,300,000), exclusive of any impact on redevelopment. The impact on redevelopment revenues ranged from a 40% decrease ($146,000) in Area #1 to a 68% decrease ($1,100,000) in Area #3. A copy of the February 22nd report, Attachment I, is attached for your reference. Attention, in particular, is directed to ALTERNATIVE ACTIONS SHOULD JARVIS PASS and the CONCLUSION Sections which set the groundwork for this report.

Review of the League of California Cities analysis suggests that changes to many revenue sources could be subject to restrictions as explained by the Los Angeles City Attorney's office. If this legal opinion accurately reflects what may happen, then the City must act quickly or there may be very few alternatives available to find replacement revenues for some of the property tax revenue loss under Jarvis-Gann.

"Jarvis-Gann provides that 'cities, counties, and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district...' It may reasonably be assumed that the wide variety of taxes, e.g., sales, business, utility users, transient occupancy, etc., imposed by the City are such "special taxes." This provision (Section 4), unlike that relating to the state (Section 3), does not speak in terms of "change" nor imposing a "new" tax, but rather straightforwardly states that a city, county or special district "may not impose" such a special tax. Read literally, this section could mean that as of July 1, 1978, no "special tax" imposed by the City or any other city in the state may be collected until the question has been submitted to the voters and approved by two-thirds of all of the qualified electors of the jurisdiction imposing the tax." I am also providing you Attachment II, an issue paper from the League of California Cities entitled, "Restriction of Local Government Revenue-Raising Ability". This further indicates why some actions may be required with respect to changes in the City's revenue structure.

Accordingly, staff recommends that Council act now to restructure revenue sources to ameliorate the impact of Jarvis-Gann. These actions, coupled with the use of some reserves and reductions in various programs, will facilitate the City's ability to accommodate the passage of Jarvis-Gann.

Council has already reviewed the 2/22/78 report which described, in general terms, the impact of Jarvis-Gann. Since then, departments were instructed to make lists of expenditure reductions by priorities and revenue ideas, both of which were discussed at department head meetings. Summaries of these discussions and suggestions are contained in this report.

ASSUMPTIONS

Certain assumptions have guided staff's proposals. It is important that the Council review these assumptions to ensure that you agree with the policy implications of each.

A. Maintain a balanced program between expenditure reductions and new revenue sources, increases in existing revenues and shifts in the use of existing revenues.

B. When evaluating programs to be funded, reduced, eliminated or modified in some other way, consideration was given to the following order of priority (#1 is the top priority to fund). These priorities were arrived at through discussions at Department Head meetings.

1. Fire suppression and police patrol.
2. Detectives/investigation and fire prevention.
3. Maintenance of firefighting and police equipment.
4. Inspection services (e.g., building, grading, permit, etc.)
5. General Administration; e.g., general government, finance, clerk, treasurer, etc.
6. Leisure Services, namely, human service programs (some), community services in police department, recreation programs, library services.
7. Street, sewer and storm drainage maintenance.
8. Street lights (i) safety lighting
(ii) residential (ornamental) lighting
9. Building maintenance.
10. Park and tree maintenance.
11. Planning and engineering services (unless funded by user fees).
12. Cultural services.

C. Operation and maintenance expenditures required for maintenance of basic City services will be given priority over capital outlay and improvements. (This may require revenue "shifts" from capital to operations and maintenance).

D. Consider, where feasible, the levying of new user charges.

E. There will be no substantial revenue replacement program enacted by the State legislature.

F. County revenue sharing funds may not be available to the City.

G. Retain balance of redevelopment program monies for economic development and capital improvements that comply with redevelopment state law provisions.

H. The General Fund may be used to assist the Park and Library funds over the next one to two years during the phase-down to certain City operations and possibly beyond that point.

I. Personnel reductions can be achieved by not filling or delaying the refill of current and future vacancies in positions where legal and/or operational problems will not result.

J. If layoffs are necessary, staff will meet with employee organizations to discuss the specific procedures to be used. At this time, staff's general plan is to implement layoffs based on seniority in classifications within departments and/or major divisions. Federal regulations appear to mandate the concurrent layoff of all CETA employees working in a department or major division where a permanent employee in the same or a similar classification is laid off.

K. In some cases, convert either to or from contract services based on an overall evaluation of cost, manning, service level, and related criteria.

L. Consider renegotiation of existing contracts and agreements such as AHFP, West Coyote Hills, etc., to defer financial obligations through time extension.

M. Citizen groups will provide more volunteer services to compensate for reduction in services in some areas, most notably in the human and leisure services area.

<u>EXPENDITURE REDUCTIONS</u>

While the figures are not specifically aggregated, across-the-board reduction to capital outlay, capital improvements and travel and training accounts would be first priority cuts. These types of reductions are included in the figures set forth below. The following expenditure reductions are classified into broad program categories by positions and operations and maintenance costs. Some brief comments are also made with respect to the impact of expenditure reductions upon various programs and activities.

A. EXPENDITURE REDUCTIONS BY PROGRAMS

1. Public Safety Total Budget $6,762,000 * — Reduction

		Reduction
Police:	Eliminate three clerical positions and 50% of school crossing guards (replace latter with volunteers at low traffic volume locations). Consider use of contract services with a community organization. Reduce holiday and overtime (except uniform division).	$ (83,000)
	Operations/Maintenance and Capital Outlay	(87,000)

Program Impact

- Increase clerical workload which will be spread over remaining 26 to 28 positions.
- Crossing guard reductions will require volunteer services at lower traffic volume crossings. Schools can use "Safety Officer" system.
- Some reduction in service on holidays, but most overtime pay reductions are for staff functions.
- Use of civilian positions will be evaluated for use in areas such as planning/research, community services, and other staff positions.
- Most operating expenditure reductions will not have dramatic impact.

Fire:	Reduce truck company at Station #1 from 5-man truck to 4-man truck (the reduction of one position on the truck is roughly equivalent to 3.5men).	(70,000)

Program impact

- Simultaneous operations of handling ladders may be somewhat slower. This represents the alternative with the least impact on suppression services.

Subtotal $(240,000) or 3.5% of Public Safety budgets.

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* Exclusive of fringe benefits which are budgeted in general government dollar amounts based on 78-79 preliminary budget.

2. Building, Planning, Engineering Services $2,366,000 — Reductions

Reduce equivalent three clerical, professional and part-time positions	$ (45,000)
Reduce maintenance and support	(24,000)
	$(69,000) or 2.9% of Building, Planning and Engineering Services budgets.

Program Impact

Some increased delays in processing permits, typing and clerical workload. Possible delays in some planning and drafting assigments. (Possible that some consultant work can be reduced for major capital projects in lieu of staff reductions). Reduces program for publicizing Planning Commission agenda and reduced travel and training. May be major staff reductions in capital improvements program reduced substantially.

3. Human and Leisure Services (Social, culture, library and recreation) $4,172,000

Reduce professional, clerical and part-time staff in Library (9.7 positions)	(119,000)
Consolidate social services staff (equivalent of 2 positions)	(25,000)
Reduce part-time recreation staff in summer playground, junior high programs, Independence Park supervision and CETA supplement funds	(62,000)

Reduce capital and operations and maintenance costs

Library	$36,000	
Social	11,000	
Park & Recreation	38,000	
Cultural	33,000	(118,000)
		$(324,000) or 7.7% of Human and Leisure Services budgets.

3. Human and Leisure Services (Cont'd.) Reductions

Program Impact

- Close Hunt Branch, reduce extension services and reduce books, records, film costs as well as fixed costs at Hunt Branch.
- Reduce support to human services programs and may require consolidation of Centers. Reduces all operations and maintenance items in Human Services budget; e.g., newsletters, directories, etc. (Also, assume loss of County Revenue Sharing Funds.)
- Reduce recreation leadership for Summer playground programs, eliminates Junior High program (unless fee charged), reduces some leadership for other programs as well as operating expenditures.
- Cultural programs would be reduced essentially by operating costs which would require increased volunteer work, fund raising or some reduction in hours facilities are open.

4. General Administration

General Administration	$1,010,000
General Government	4,807,000
Total	$5,817,000

This section includes fringe benefit costs, contract services budgeted contingencies in General Government budget, plus Personnel, City Attorney, City Clerk, City Manager, City Treasurer, Finance and City Council. Eliminate some contingency funds, Chamber of Commerce, Man-in-Washington*, "Hear Ye, Hear Ye", Christmas decorations, Sister City, some memberships, fringe reductions from about 10 positions $(112,000)

Reduce equivalent of two positions and Operations and Maintenance accounts in City Attorney, City Clerk, Finance, City Manager and City Council budgets (50,000)

$(167,000) or 2.9% of General Gov't. and General Administration

Program Impact

- Significantly reduces contract services and public information program ("Hear Ye, Hear Ye").
- Reduces support staff and internship program.
- Reduces memberships and travel, law books, classification studies.

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* It is probably inappropriate to eliminate the Man-in-Washington program when the City would be increasingly dependent on outside sources of funds for operations, maintenance and capital improvements.

5. Maintenance Services (Maintenance and Operations and Street Lighting) $4,912,000	Reductions
This includes street, park, building maintenance, street lights, sidewalk and tree maintenance. Utility savings and selective reduction of street lights	$(100,000)
Reduce all other maintenance functions, such as custodial building and equipment maintenance	(100,000)
Some other major expenditure reduction concepts in the maintenance area involve:	
(1) Assuming contract work so that positions can be retained and spreading existing maintenance workforce over a greater number of functions (this would result in some service level reductions in all maintenance areas except Golf Course)	(200,000)
(2) Passing on to property owners the direct responsibility for certain functions such as tree maintenance.	
(3) Charging the property owner for direct services such as sidewalk maintenance through assessment district proceedings.	
These three changes could reduce expenditures $100,000 to $200,000.	
	$(400,000) or 8.1% of Maintenance & Operations and Street Lighting budgets.

Program Impact

- Reduce custodial services and use other employees for minor cleanup and custodial services. Perform only emergency carpenter services.
- Eliminate some ballfield maintenance, turf operations, slope work, root pruning, Summer weed crew - generally lower level of park maintenance.
- Reduce street sweeping from once a week to twice a month.
- Reduce street painting from once a year cycle to once every two years.
- Reduce sidewalk repair work to,essentially,emergency work only.

5. Maintenance Services (Cont'd.) — Reductions

Program Impact (Cont'd.)

- Reduce some residential street lighting (selectively) as lights burn out (other energy cost reductions may result from energy savings program).
- Possible use of City work force in lieu of existing contract services which spreads City work force over more service areas. Reduces, in part, all service levels.
- Possible relinquishment of tree maintenance responsibility to property owners.

GRAND TOTAL EXPENDITURE REDUCTIONS $(1,200,000)

REVENUE TRANSFERS AND INCREASES

Based on the expenditure reductions and the forecast by staff that revenue loss would be in excess of $2 million, a need exists to generate about $1 million of revenue sources for operations and maintenance programs which, when coupled with the $1.2 million expenditure reduction program, achieves the preliminary objective of cutting general, library and park fund operations about $2.2 million. The following information represents very preliminary estimates of revenue. The impact of Jarvis-Gann on the ability to raise revenues is not considered in the revenue estimates. Accordingly, existing economic conditions are assumed.

Revenue Item	Annual Revenue Increases
Transfer General Revenue Sharing funds from unappropriated reserves, maximize time to consummate Coyote Hills agreements, cancel some capital projects	200,000
Use Transient Occupancy Tax for operations, and curtail development and acquisition of the parks.	170,000**
Increase Transient Occupancy Tax from 5% to 6% (Anaheim and Buena Park levy 6% tax)	35,000**
Transfer additional gas tax funds to the general fund for street maintenance purposes in lieu of street construction projects	200,000

* Possible additional $5,000 for Fire Department plan checking included

** Action before June 6, 1978 may be required

Revenue Item	Annual Revenue Increases
Increase library user fees for lecture room, film rentals projector rentals, library fines	15,000**
Pay for Plummer Auditorium parking bonds from re-development funds instead of general funds	77,000
Increase or add user fees in Police Department for visa letters, fingerprinting, firearms registration, alarm services, etc.	22,000**
Increase permit, development and building fees in Development Services and engineering and community development;(e.g., planning fees, plumbing and electrical, sign permits, subdivisions, miscellaneous permits, etc.) departments.* Increase O/H charges to HCD and redevelopment programs.	100,000**
City receive rental fees for use of Muckenthaler Center currently collected by the Foundation	8,000
Increase 2¢ per barrel oil extraction tax to the average of several other cities (5¢).	52,000**
Charge organizations for night-lighted use of sports-fields, field preparation, maintenance of snack stands;** charge participants for tennis tournament and Junior High sports program, increase swimming pool fees, increase tennis and racquetball fees. ($25,000 of revenues would be to fund Junior High programs.)	63,000
Increase Plummer parking fees from 25¢ to 50¢.	18,000
Other miscellaneous revenue increases of O/H charges to enterprise funds	52,000
TOTAL NEW REVENUES	$1,012,000

OTHER REVENUE CONCEPTS

Council may wish to consider other major fee adjustments such as:

(1) Parking fines (double the bail from $1.00 to $2.00) subject to Municipal Court approval - ($100,000).

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* Possible additional $5,000 for Fire Department plan checking included.
** Action before June 6, 1978 may be required.

OTHER REVENUE CONCEPTS (Cont;d.)

(2) Use the dwelling tax as almost the sole source for capital improvements with a possibility of using it for maintenance in the future.

(3) Investigate a paramedic surcharge on the water bill ($100,000). This would probably require special legislation for General Law cities.

(4) Investigate the city creating its own fire insurance program (League of California Cities currently studying).

(5) Airport operating fund. Add franchise tax and increase fees at Airport $30,000.

(6) The Golf Course Fund can begin to repay the general fund loan ($25,000).

(7) Review other franchise agreements.

(8) Add user charges for sidewalk repairs, tree removals, etc. ($25,000).

PHASEDOWN PROGRAM USING CITY RESERVES

Obviously, the impact of the Jarvis-Gann initiative suggests that the level of reserves will have to be reduced. When reserves are considered for the three major impacted operating funds; General, Library and Parks, there are anticipated combined reserves of $4.5 million. Some of these funds would be used during the next 6-18 months which may draw down the balance in all three funds to $3 to $3.5 million. (Some of these reserves should be put in the Liability Insurance Trust fund because of additional liability exposure.) Use of reserves is required to attain the full impact of new revenues and expenditure reductions suggested above. Total implementation of the program should take about six to eighteen months.

IMPACT ON REDEVELOPMENT

It becomes even more imperative that redevelopment programs be maintained to foster economic development in the community and provide some funds for capital improvements which meet State redevelopment law guidelines. Sales and business license taxes are a vital part of the City's revenue and every opportunity should be sought to augment these revenues. Redevelopment offers one of the very few tools to do so and it does so without strings attached to it as might be the case with State and Federal loan and grant programs. Even with a 58% reduction in redevelopment tax increment revenues (from $2.9 million to $1.2 million) there are still some revenues to support redevelopment bonds for some economic development projects. This is illustrated in the following table:

REDEVELOPMENT AGENCY TAX INCREMENT REVENUE

	Pre-Jarvis 1977-78	Jarvis 1978-79	Amount of Decrease	Percent Decrease
Area #1	$ 362,200	$ 215,638	$ 146,562	40%
Area #2	970,300	478,993	491,307	50%
Area #3	1,622,300	520,964	1,101,336	68%
Agency Total	$2,954,800	$1,215,595	$1,739,205	58%

CONCLUSIONS AND RECOMMENDATIONS

If Jarvis-Gann passes, certain actions need to be taken to ensure a smooth flow from existing programs to a reduced level of programs. Those policy actions required by the Council are:

1. Determine if balanced program of expenditure reductions and revenue increases is desirable. Alternatively, consider an expenditure reduction program only or a revenue increase program only.

2. Consider the concept of attrition of personnel through turnover; i.e., retirements, voluntary terminations, etc., versus forced layoffs. Also consider maintaining reasonably competitive salaries for the remaining workforce.

3. Approve a policy of layoff by seniority within departments and/or major divisions, subject to discussions with employee organizations.

4. Consider actions on the following revenue items prior to June 6, 1978 so that Council will have the latitude to institute such revenue if Jarvis-Gann passes. (Council may wish to consider a special meeting on June 1 to enact some of these revenue items):

   a). Use Transient Occupancy Tax for operations, development and acquisition in the park and recreation program maintenance and capital outlay and increase from 5% to 6%.

   b). Refer to the Library Board of Trustees a recommendation to increase library user fees for lecture room, film rentals, projector rentals, library fines.

   c). Increase or add user fees in Police Department for visa letters, fingerprinting, firearms registration, alarm services, etc.

   d). Increase permit, development and building fees in Development Services and Engineering and Community Development Departments.

   e). Increase 2¢ per barrel oil extraction tax to 5¢.

CONCLUSIONS AND RECOMMENDATIONS (Cont'd.)

Finally, it should be reiterated that department heads,working collectively, generated the above expenditure reductions and revenue concepts. The expenditure reductions are not an exhaustive listing but further reductions would generally be a continuance of the types shown in this report.

The program priorities shown in the ASSUMPTIONS section were used as guidelines in trying to minimize the impact on some of the staff's perceptions of higher priority areas. Further reductions would inevitably impact some of those higher priority areas. As with the fact that expenditure cuts could go deeper with corresponding service level impacts, so too are there more revenue items which could be explored in future months; however, the program offered in this report is a sincere effort by staff to offer Council short-term alternatives to cope with the potential impact of Jarvis-Gann.

To a lesser extent and over a longer period of time, Council may want to consider some of these alternatives and concepts if Behr passes or if both of the property tax relief measures on the June ballot fail.

Respectfully,

Les White
City Manager

LW:cf

Attach.

CITY OF FULLERTON

ATTACHMENT 1

TO City Council **DEPT.**

FROM Les White **DEPT.** Administration

SUBJECT IMPACT OF THE JARVIS/GANN TAX INITIATIVE **DATE** February 22, 1978

Passage of Proposition 13 (the Jarvis Initiative) on the June ballot will have a major long-term effect on the revenue producing capacity of all local government agencies. In this report, staff has attempted to provide the best possible estimate of the immediate impact of passage on General City and Redevelopment Agency revenues for next fiscal year.

SUMMARY

The staff analysis concludes that the first year impact of Jarvis on the General City Operating Budget will be to reduce revenue from property tax sources by about 44% compared to this year, and consequently, produce a revenue shortfall* of 13.0% as indicated in the following table:

PRELIMINARY REVENUE AND EXPENDITURE PROJECTIONS, WITH AND WITHOUT JARVIS, FOR 1978/79

	Total Revenue before Jarvis	Total Revenue with Jarvis	Difference	Percent De-crease	Estimated Operating Expenditure	Revenue Shortfall with Jarvis
General	14,937,300	13,133,700	1,803,600	12.1%	14,274,000	1,140,300
Park	1,708,700	864,700	844,000	49.4%	1,155,600	290,900
Library	1,767,600	939,100	828,500	46.9%	1,443,500	504,400
Total	18,413,600	14,937,500	3,476,100	18.9%	16,873,100	1,935,600

*The amount by which estimated expenditures exceed estimated revenue.

The first year impact on the Redevelopment Agency will be to reduce tax increment income in the following approximate proportions:

REDEVELOPMENT AGENCY TAX INCREMENT REVENUE

	Pre-Jarvis 1977-78	Jarvis 1978-79	Revenue Shortfall	Percent Decrease
Area #1	$ 362,200	$ 215,638	$ 146,562	40.5%
Area #2	970,300	478,993	491,307	50.6%
Area #3	1,622,300	520,964	1,101,336	67.9%
Agency Total	$2,954,800	$1,215,595	$1,739,205	58.9%

ASSUMPTIONS

The staff analysis summarized above was based on a number of assumptions about how Jarvis will be implemented and what revenue sources Jarvis will impact. Staff assumptions are:

1. Jarvis adds new law to the Constitution and, therefore, supersedes only those existing laws that conflict directly.

2. The property tax limits apply only to "real property" (land, improvements, and mineral rights) and leave the taxation of personal property and business inventories unchanged.

3. That 1975-76 is cited in the Initiative as the "base year" for establishing Full Cash Value and anticipates that the "base" will be adjusted for all those factors cited - including 2% per year inflationary growth - to determine the 1978-79 Full Cash Value of Real Property.

4. That the total 1% revenue from the Real Property Tax will be distributed to all taxing districts - including cities - within the County in essentially the same proportions as the 1977-78 total tax distribution. Staff used the individual agency tax rate compared to total tax rate method for estimating the proportional distribution.

5. That, just as incremental taxes resulting from increased Assessed Value in Redevelopment Areas is reserved for the use of Redevelopment Agencies, so will incremental taxes from increased Full Cash Value be reserved for Redevelopment.

In its separate analysis, the County has made some different assumptions which follow:

1. Counties and cities will receive a portion of the 1% tax to be collected. The tax will be apportioned at the same ratio that it was in 1975-76, i.e., 16% to the County, 14% to Special Districts, 10% to Cities, and 60% to Schools.

2. All real property in Orange County is already assessed up to the 1975-76 levels.

3. The allowed 2% per year inflationary rate will not be retroactive to 1975-76 but will begin in 1978-79.

TEXT OF JARVIS/GANN INITIATIVE

"That Article XIII A is added to the Constitution to read:

Section 1.

(a) The maximum amount of any ad valorem tax on real property shall not exceed One percent (1%) of the Full Cash Value of such property. The One percent (1%) tax to be collected by the counties and apportioned according to law to the districts within the counties.

(b) The limitation provided for in subdivision (a) shall not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters prior to the time this section becomes effective.

Section 2.

(a) The Full Cash Value means the County Assessor's valuation of real property as shown on the 1975-76 tax bill under "Full Cash Value", or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment. All real property not already assessed up to the 1975-76 tax levels may be reassessed to reflect that valuation.

(b) The fair market value base may reflect from year to year the inflationary rate not to exceed two percent (2%) for any given year or reduction as shown in the consumer price index or comparable data for the area under taxing jurisdiction.

Section 3.

From and after the effective date of this article, any changes in State taxes enacted for the purpose of increasing revenues collected pursuant thereto whether by increased rates or changes in methods of computations must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

Section 4.

Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district, except ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property within such City, County or special district.

Section 5.

This article shall take effect for the tax year beginning on July 1 following the passage of this Amendment, except Section 3, which shall become effective upon the passage of this article.

Section 6.

If any section, part,clause, or phrase hereof is for any reason held to be invalid or unconstitutional, the remaining sections shall not be affected but will remain in full force and effect."

QUESTIONS/CONCERNS

A number of questions and concerns have been raised consistently since the dialogue on the impact of Jarvis began in January. One issue appears to have been resolved: A Superior Court Judge in Sacramento has ruled that Jarvis does not violate the constitutional provision that an initiative may deal with only one issue. However, the plaintiffs may appeal the decision. Other significant questions that have been raised by more than one agency or concerned organization are:

1. How will the 1% be divided up among the local districts? The initiative is written to imply that only "districts" will share in the proceeds of the 1%. Does this mean cities and counties will receive none?

2. The initiative is worded in such a way as to apparently benefit business and industry at the expense of homeowners. Property is to be reassessed when sold. Since homes are sold more frequently than business properties, the initiative will continually shift a greater percentage share of the property tax burden to homeowners.

3. In addition to shifting tax burdens from business to homeowners, the assessment freeze (+2%) as proposed raises questions of equal tax treatment of similarly situated homeowners. Homeowners in identical market value homes, next door to one another, could pay substantially different property taxes for the same government services simply because one house had not been sold and the other had.

4. The amendment only applies to real property. Will this mean higher taxes on personal property?

5. Would the amendment tend to prohibit future general obligation bond issues? The initiative provides that a two-thirds (2/3) vote of the qualified electors (registered voters) is required to impose special taxes. If general obligation bonds are still allowed under the amendment, the two-thirds requirement may be an impossible hurdle.

6. The initiative does not define the term "new construction". Would a multi-million-dollar addition to an existing plant be "new construction" or an addition? If new construction does not include additions and alterations, there would be a major loophole wherein billions in new construction could escape taxation entirely.

7. The initiative could apparently cause some over-assessments of properties. In defining Full Cash Value as the 1975-76 assessment, the underlying assumption is that the value will be lower. However, there are some properties that have declined in value since 1975-76. The only way these assessments could be reduced in the future is through a decline of the consumer price index, or through sale of the property.

8. How can the combined effects of Jarvis and the possible extension of Unemployment Insurance to local governments be dealt with? Public Law 94-566, passed by Congress in 1976, requires each State to cover State and Local Government employees under Unemployment Insurance, effective January 1, 1978. In light of penalties threatened by the Federal government if the State does not comply with the requirements of the law, it appears that California enabling legislation (AB-644) will soon pass. (Was passed in late January.) If Jarvis passes and the State does not replace the lost revenue, cuts in local government services will be necessary. Since cuts in service will probably include reductions in staffing, major expense in Unemployment Insurance claims will result.

ALTERNATIVE ACTIONS SHOULD JARVIS PASS

If the Jarvis Initiative is passed by the voters in June, a number of alternatives are available to deal effectively with resulting reduction in revenue. First, several actions would result in either increasing existing revenue sources, generating new revenue, or removing restriction on the use of existing revenue:

1. Remove capital outlay use restrictions from Park Tax (Dwelling), Transient Occupancy Tax, and Sewer and Drainage Capital Outlay Taxes.

2. Shift use of General Revenue Sharing from Capital Improvement to Operations.

3. Allocate 100% of State Gas Tax revenues to street maintenance.

4. Increase overhead charges to special funds and other grant activity.

5. Increase and expand user fees for Park and Recreation programs and facilities.

6. Increase present property tax rate to S.B. 90 limit (an additional 21¢).

7. Intensify efforts to enhance the commercial community in order to increase existing sales tax revenue.

Second, our service programs could be modified as follows:

1. Reduce or eliminate the Capital Improvement Program.

2. Freeze both personnel and program service level.

3. Severely curtail travel by all personnel.

4. Convert to or from contract services on a cost/benefit basis.

5. Reduce or eliminate optional program participation that requires a City match (i.e., CETA and Human Services).

6. Reduce both personnel and service levels.

CONCLUSIONS

If approved by the voters in June, the Jarvis/Gann Tax Initiative will require a thorough reassessment of operating expenditure patterns and capital improvement projects. The inescapable result of some capital improvement projects, such as adding new park land to the present inventory, may be to add new maintenance and operating costs in a fiscal environment where revenue producing capacity is severely restricted.

In light of these potential restrictions, the appropriateness of "reserving" property tax increment revenue for Redevelopment Agency activities may be called into question. As demonstrated under Section VI of the attached schedules, the City could gain approximately $260,000 in property tax revenue for FY 78-79 by closing out all three Redevelopment Areas. On the other hand, keeping the areas open would make approximately $1,700,000 available for capital improvements in the same fiscal year. Additionally, any Redevelopment activity that will enhance commercial volume will return added sales tax revenue to this City, and thus help alleviate the fiscal impact of Jarvis as well as improve the property tax base.

Staff has been instructed to begin preparation of their 1978-79 budget requests under "non-Jarvis' conditions and concurrently develop detailed alternate actions for responding to voter approval of the Initiative.

We will keep the Council informed as this process continues.

LRW:GAA:ms
Attachs.

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

I. AV,*FCV,*AND MAXIMUM TAX (EXCLUDING REDEVELOPMENT AREAS)

Total AV excluding aircraft 1975-76	$415,961,715	
Times 4 = 1975-76 Full Cash Value (FCV)		$1,663,846,860
Less Secured, Unsecured & Public Utilities Personal Property		(148,337,040)
Less Secured & Unsecured Business Inventory		(45,697,720)
Total 1975-76 Real Property FCV		$1,469,812,100
Add 2% for CPI Growth		29,396,242
Add 1/4 of 1% for RAS		3,674,530
Add 87.83% of 1975 new construction		19,212,045
Total 1976-77 Real Property FCV		$1,522,094,917
Add 2% for CPI Growth		30,441,898
Add 1/4 of 1% for RAS		3,805,237
Add 87.83% of 1976 new construction		63,185,247
Total 1977-78 Real Property FCV		$1,619,527,299
Add 2% for CPI Growth		32,390,546
Add 1/4 of 1% for RAS		4,048,818
Add 87.83% of 1977 new construction		68,066,285
Total 1978-79 Real Property FCV		$1,724,032,948
1% of 1978-79 FCV = Maximum Tax on Real Property		$ 17,240,329

*AV = Assessed Value; FCV = Full Cash Value

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

II. TAX SHARE COMPUTATIONS

Total "typical" Fullerton Tax Rate for Fiscal Year 1977-78		9.2046
Less: Fullerton Elem. Bond I/R	.1615	
Less: Fullerton H.S. Bond I/R	.1107	
Less: Fullerton J.C. Bond I/R	.0081	
Less: Fullerton City Fire Bond I/Rs	.0081	(.2884)
Total Tax Rate excluding Approved Bonds		8.9162

City General Fund Tax Rate .6315 divided by 8.9162 = 7.0826%
City Park Fund Tax Rate .2954 divided by 8.9162 = 3.3131%
City Library Fund Tax Rate .2900 divided by 8.9162 = 3.2525%

Total City Tax Rate excluding Bonds 1.2169 divided by 8.9162 = 13.6482%

III. ESTIMATED PROPERTY TAX REVENUE FOR FY 1978-79 (EXCLUDING APPROVED BOND I/R FUNDS & TAX INCREMENTS

General Fund Share	7.0826%	times 17,240,329	=	$1,221,064
Park Fund Share	3.3131%	times 17,240,329	=	571,189
Library Fund Share	3.2525%	times 17,240,329	=	560,742
Total Real Property Tax Revenue per Jarvis	13.6482%	times 17,240,329*	=	$2,352,995

Add: Secured & Unsecured Personal Property & Business Inventory Tax Revenues as follows:

General Fund	.6315 x 926,750*	= 585,243	
Park Fund	.2954 x 926,750*	= 273,762	
Library Fund	.2900 x 926,750*	= 268,758	1,127,763

Total City Property Tax Revenue Excluding Bond I/R and Redevelopment $3,480,758

Total by Fund:

General Fund --------	$1,806,307
Park Fund -----------	844,951
Library Fund --------	829,500
	$3,480,758

*$92,675,000 estimated total 1978-79 P.P. & B.I. Assessed Value/100.

2-22-78

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

IV. REDEVELOPMENT AGENCY AV'S AND FCV'S

Area 1 (Orangefair)		
Base year (1973) AV (w/adj. thru 1977)	$ 7,880,965	
Times 4 = Adjusted Base Year Total FCV		$ 31,523,860
Less Base Year Personal Property FCV		(3,526,720)
Less Base Year Business Inventory FCV		(5,107,840)
Adjusted Base Year Real Property FCV		$ 22,889,300
1975/76 Total AV	10,094,640	
Times 4 = FCV		40,378,560
Less Personal Property FCV		(4,821,400)
Less Business Inventory FCV		(6,828,360)
Total 1975/76 Real Property FCV		28,728,800
Add 2% for CIP Growth		574,576
Add 1/4 of 1% for RAS		71,822
Add 2.13% of 1975 new construction		465,919
Total 1976/77 Real Property FCV		29,841,117
Add 2% for CIP Growth		596,822
Add 1/4 of 1% for RAS		74,603
Add 2.13% of 1976 new construction		1,532,330
Total 1977/78 Real Property FCV		32,044,872
Add 2% for CIP Growth		640,897
Add 1/4 of 1% for RAS		80,112
Add 2.13% of 1977 new construction		1,650,702
Total 1978/79 Real Property FCV		34,416,583
Less Adjusted Base Year Real Property FCV		(22,889,300)
Total Incremental Real Property FCV		11,527,283
1% of Incremental FCV = $ 115,273		

Personal Property & Business Inventory		
1977/78 Incremental AV	$1,069,000	
Add 2% Growth	21,380	
Estimated 1978/79 Incremental PP & BZ AV		$1,090,380
Times Typical Total Tax Rate of $9.2046 =		100,365
TOTAL INCREMENTAL TAX REVENUE		$ 215,638

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

IV. REDEVELOPMENT AGENCY AV'S AND FCV'S

Area 2 (CBD)		
Base year (1974) AV (w/adj. thru 1977)	$22,407,865	
Times 4 = Adjusted Base Year Total FCV		$89,631,460
Less Base Year Personal Property FCV		(12,562,680)
Less Base Year Business Inventory FCV		(8,298,640)
Adjusted Base Year Real Property FCV		$68,770,140
1975/76 Total AV	25,304,120	
Times 4 = FCV		101,216,480
Less Personal Property FCV		(3,083,880)
Less Business Inventory FCV		(13,060,080)
Total 1975/76 Real Property FCV		85,072,520
Add 2% for CIP Growth		1,701,450
Add 1/4 of 1% for RAS		212,681
Add 5.34% of 1975 new construction		1,168,078
Total 1976/77 Real Property FCV		88,154,729
Add 2% for CIP Growth		1,763,095
Add 1/4 of 1% for RAS		220,387
Add 5.34% of 1976 new construction		3,841,617
Total 1977/78 Real Property FCV		93,979,828
Add 2% for CIP Growth		1,879,597
Add 1/4 of 1% for RAS		234,950
Add 5.34% of 1977 new construction		4,138,380
Total 1978/79 Real Property FCV		100,232,755
Less Adjusted Base Year Real Property FCV		(68,770,140)
Total Incremental Real Property FCV		31,462,615
1% of Incremental FCV =	314,626	
Personal Property & Business Inventory		
1977/78 Incremental AV/100	17,506.90	
Add 2% Growth	350.14	
Estimated 1978/79 Incremental PP & BZ AV/100	$17,857.04	
Times Typical Total Tax Rate of $9.2046 =	164,367	
TOTAL INCREMENTAL TAX REVENUE ------------	$478,993	

2/22/78

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

IV. REDEVELOPMENT AGENCY AV'S AND FCV'S

Area 3 (East)		
Base year (1974) AV (w/adj. thru 1977)	$15,988,955	
Times 4 = Adjusted Base Year Total FCV		$63,955,820
Less Base Year Personal Property FCV		(4,143,840)
Less Base Year Business Inventory FCV		(1,714,360)
Adjusted Base Year Real Property FCV		$58,097,620
1975/76 Total AV	22,219,830	
Times 4 = FCV		88,879,320
Less Personal Property FCV		(5,166,520)
Less Business Inventory FCV		(470,000)
Total 1975/76 Real Property FCV		83,242,800
Add 2% for CIP Growth		1,664,856
Add 1/4 of 1% for RAS		208,107
Add 4.69% of 1975 new construction		1,025,897
Total 1976/77 Real Property FCV		86,141,660
Add 2% for CIP Growth		1,722,833
Add 1/4 of 1% for RAS		215,354
Add 4.69% of 1976 new construction		3,374,004
Total 1977/78 Real Property FCV		91,453,851
Add 2% for CIP Growth		1,829,077
Add 1/4 of 1% for RAS		228,635
Add 4.69% of 1977 new construction		3,634,645
Total 1978/79 Real Property FCV		97,146,208
Less Adjusted Base Year Real Property FCV		(58,097,620)
Total Incremental Real Property FCV		39,048,588
1% of Incremental FCV =	390,486	
Personal Property & Business Inventory		
1977/78 Incremental AV/100	13,897.40	
Add 2% Growth	277.95	
Estimated 1978/79 Incremental PP & BZ AV /100	14,175.35	
Times Typical Total Tax Rate of $9.2046 =	130,478	
TOTAL INCREMENTAL TAX REVENUE -----------------	$520,964	

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

V. COMPARISON WITH CURRENT REAL PROPERTY TAX REVENUE

Fund	(Pre-Jarvis) 1977-78	(Jarvis) 1978-79	Amount of Decrease	Percent Decrease
General	$ 3,251,000	$ 1,806,307	$ 1,444,693	44.4%
Park	1,511,500	844,951	666,549	44.1%
Library	1,483,900	829,500	654,400	44.1%
City Total	$ 6,246,400	$ 3,480,758	$ 2,765,642	44.3%
REDEVELOPMENT AGENCY TAX INCREMENT REVENUE (FROM SECTION V)				
Area #1	$ 362,200	$ 215,638	$ 146,562	40.5%
Area #2	970,300	478,993	491,307	50.6%
Area #3	1,622,300*	520,964	1,101,336	67.9%
Agency Total	$ 2,954,800	$ 1,215,595	$ 1,739,205	58.9%

*Was available for 1977-78.

2/22/78

CITY OF FULLERTON

ANALYSIS OF JARVIS TAX INITIATIVE
IMPACT ON CITY REVENUE FOR FY 1978-79

VI. TOTAL CITY IMPACT IF REDEVELOPMENT AGENCY IS DISSOLVED IN WHOLE

Total AV including all Redevelopment Areas times 4 =	$473,580,305	
Total FCV all property City-wide		$1,894,321,220
Less all Personal Property FCV		(169,758,080)
Less all Business Inventory FCV		(204,863,680)
Total all Real Property FCV 1975-76		1,519,699,460
Add 2% for CPI		30,393,989
Add 1/4% of 1% for RAS		3,799,249
Add 1975 new construction		21,874,126
Total Real Property FCV 1976-77		1,575,766,824
Add 2% for CPI		31,515,336
Add 1/4 of 1% for RAS		393,417
Add 1976 new construction		71,940,393
Total Real Property FCV 1977-78		1,683,161,970
Add 2% for CPI		33,663,239
Add 1/4 of 1% for RAS		4,207,905
Add 1976 new construction		77,497,763
Total Real Property FCV 1978-79		1,798,530,877
1% of 1978-79 FCV = Maximum Tax on Real Property		17,985,309
General Fund:		
7.0826% share of Max. Real Property Tax	1,273,827	
$.6315 x total Personal Property & B.I. AV/100	669,294	
Total General Fund		1,943,121
Park Fund:		
3.3131% share of Max. Real Property Tax	595,871	
$.2954 x total Personal Property & B.I. AV/100	313,079	
Total Park Fund		908,950
Library Fund:		
3.2525% share of Max. Real Property Tax	584,972	
$.2900 x total Personal Property & B.I. AV/100	307,356	
Total Library Fund		892,328
Total City without Redevelopment		$ 3,744,399
Less City with Redevelopment		(3,480,758)
Additional General City Revenue		$ 263,641
General City + Redevelopment		$ 4,696,353

SUMMARY

PRELIMINARY REVENUE* AND EXPENDITURE* PROJECTIONS
WITH AND WITHOUT JARVIS FOR 1978/79

Fund	Total Revenue before Jarvis	Total Revenue with Jarvis	Difference	Per-cent De-crease	Estimated Operating Expenditure	Revenue Shortfall with Jarvis
General	14,937,300	13,133,700	1,803,600	12.1%	14,274,000	1,140,300
Park	1,708,700	864,700	844,000	49.4%	1,155,600	290,900
Library	1,767,600	939,100	828,500	46.9%	1,443,500	504,400
Total	$18,413,600	$14,937,500	$3,476,100	18.9%	$16,873,100	$1,935,600

Revenue shortfall as a percent of total available revenue with Jarvis 13.0%.

*Includes General, Park, and Library Funds only, excludes special grant activity and capital improvements.

ATTACHMENT 11

League of California Cities

California Cities Work Together

Sacramento, California
May 10, 1978

TO: Mayors, City Managers and City Clerks in Non-Manager Cities

SUBJECT: Issue Paper - Proposition 13 and "Special Taxes"

RESTRICTION OF LOCAL GOVERNMENT REVENUE-RAISING ABILITY

Section 4 of the Jarvis-Gann Initiative (Proposition 13) would permit cities, with the approval of a two-thirds vote of the qualified electors, to impose "special taxes." Putting aside other questions of interpretation, including those raised by the references in Section 4 to "district," the question is:

> *What are or could reasonably be included in and, conversely, excluded from the term "special taxes" as it relates to the revenue-producing authority of cities?*

The following has been prepared to assist city officials in their understanding of this provision of Proposition 13.

Included in "Special Taxes"

While not totally definitive, taxes are commonly classified as either property or excise. Property taxes are, of course, those levied and assessed in accordance with the value of property, i.e., ad valorem. Historically, an "excise" was a tax upon a privilege. Today, however, any tax which does not fall within the classification of a tax directly on property (ad valorem tax) is said to be an excise tax. Therefore, the "special taxes" referred to in Section 4 can reasonably be said to include any kind of excise tax except "a transaction tax or sales tax on the sale of real property." The latter are expressly excluded by the terms of Section 4.

1. There is a wide variety of excise taxes imposed by cities. Among those commonly imposed and as to which the restrictions of Section 4 of the Jarvis-Gann Initiative would clearly apply are the following:

   Business licensing tax for revenue purposes only (a tax upon the privilege of conducting a business within the city).

   Parking and business improvement area tax (an additional business tax imposed on a benefit area basis).

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Sales and use tax (a tax on the privilege of selling tangible personal property at retail and a complementary tax on the storage, use or other consumption of tangible personal property purchased from a retailer).

Transient room tax (hotel or "bed" tax - on the privilege of occupying a motel-hotel room or renting a mobilehome for any period of 30 days or less).

Bedroom or property development tax (a tax on the privilege of building a dwelling unit or mobilehome park space and, in some cities, on commercial and industrial development - validated for general law cities as a business license tax).

Utility Users Tax (a tax on the consumer of utility services computed in accordance with the amount of consumption but imposed without regard to the source of or rendition of the service; this tax has been available to charter cities only).

2. Other excise taxes imposed by an isolated few chartered cities, or available to chartered cities, which would also be "special taxes" within the restriction of Section 4 are the following:

Employee license fee (imposed by Oakland on persons working in the city - question of validity now pending before State Supreme Court).

Equine tax (imposed by Los Angeles on the privilege of keeping an equine).

Parking tax (imposed by San Francisco and Inglewood on the occupancy of a parking space in a "parking station" for which any charge is made).

Enplaning tax (a charge on passengers at municipal airport).

3. There are also other impositions by cities which conservatively should be assumed to fall in the Proposition 13 "special taxes" category. While these might commonly be thought of as service charges rather than taxes, this assumption appears correct not only because the particular impositions are not directly related to the source and/or amount of services actually rendered but also in light of impressive judicial precedent likening the type of charge to an excise tax. In this category of excise taxes are the following:

Garbage or rubbish charges based upon occupancy (a charge on the occupants of real property for the privilege of accumulating garbage or rubbish and having available collection service therefor - deemed to be supportable under the city's taxing power and therefore categorized as an excise tax in City of Glendale v. Trondsen, 48 Cal.2d 93).

Sewer connection charges (a charge for the privilege of connecting to the city sewer system validated as an exercise of the taxing power and held to be "in the nature of an excise tax" in Associated Home Builders v. City of Livermore, 56 Cal.2d 847).

Water connection charges (a charge for the privilege of connecting to the city water system and analogous to sewer connection charges categorized as excise taxes in the Livermore case, supra).

Annual sewer service standby or immediate availability charge (authorized by Gov.C. Section 38902 to be imposed "whether the sewer service is actually used or not" and if it is to be collected on the county tax roll is required to be stated on the tax bill separately from all "other" taxes).

Annual water service standby or immediate availability charge (authorized by Gov.C. Section 38743 to be imposed "whether the water service is actually used or not" and if it is to be collected on the county tax roll is required to be stated on the tax bill separately from all "other" taxes).

As to the foregoing, it should be noted that arguments might be made in support of their exclusion from rather than inclusion in the "special taxes" restriction in Proposition 13. As to garbage occupancy and sewer connection charges, such argument would focus on judicial authority confirming both as a valid and proper incident to the exercise of the police power to provide the garbage collection and sewer systems (garbage: Davis v. City of Santa Ana, 108 C.A.2d 669, and City of Glendale v. Trondsen, 48 Cal.2d 93; sewer connection: Longridge Estates v. City of Los Angeles, 183 C.A.2d 533, and Harter v. Barkley, 158 Cal. 742). Since a city derives its authority to establish a water system from the Constitution (Art. XI, Section 9) and the authority is deemed self-executing and thus needing no implementing statutory authorization, water connection charges might be excluded from the "special taxes" restriction of Proposition 13 on the theory that the source of their authority stands on an equal plane with this proposed constitutional restriction. As to all of the foregoing impositions, the "benefit theory" could be asserted to analogize them to service charges rather than excise taxes. In each case, recognizable benefits are conferred and received, in the form of the availability of the service and its potential or actual use.

Excluded From "Special Taxes"

1. Is is well-established that charges imposed for the use of a wide variety of services rendered by cities are not taxes but rather in the nature of tolls or rents for the benefits received by the user of the service. Further, the amount of the fees or charges is a matter of discretionary determination by the city council and as long as that amount is not grossly excessive or all out of proportion to the benefit received, the charge imposed is presumptively valid. Included in this category of revenue-producing service charges which would not be within the "special taxes" limitation of Proposition 13 are the following:

   Garbage, rubbish and trash collection charges or fees (based upon use of the service rather than simple occupancy of property).

   Sewer service charges or rentals (the monthly, bi-monthly, etc., charges imposed for use of the city sewer systems, but not necessarily computed in accordance with the amount of use).

   Water service charges or rentals (the monthly, bi-monthly, etc., charges imposed for use of the city water systems, but not necessarily computed in accordance with the amount used).

   Park and recreational facilities use fees (e.g., swimming pool fees, mooring charges, camping fees, golf course fees, etc., all imposed upon actual users of the facilities).

2. Cities also commonly impose an infinite variety of service charges in conjunction with the enforcement of regulatory ordinances. These are more definitively described as regulatory license or permit fees. They may be imposed in almost all regulatory fields and find their source of authority not necessarily in an express grant but in the authorization for the regulation being enforced, whether it stems generally from the constitutional police power or is derived from express statutory grant. By their very nature these fees are limited in amount, i.e., the amount charged must bear a direct relationship to the costs of administering the particular regulation. Being so limited, regulatory license or permit fees should not be revenue-producers. There is no doubt that such fees are excluded from the "special taxes" restriction of Jarvis-Gann. Among the many fees which fall into this category are the following:

   All types of <u>permit fees</u> (building, electrical, plumbing, curb cuts, etc.).

   All types of <u>planning, zoning and subdivision processing fees</u> (plan checking, conditional use permits, variances, tentative or final maps, etc.).

   All types of <u>special business license permits</u> (amusements, circuses, taxicabs, ambulances, massage parlors, etc. - these are, of course, to be distinguished from the business license taxes for revenue purposes which are also commonly imposed on these types of business operations within the city).

<u>Alternate Interpretation of "Special Taxes"</u>

In response to inquiries initiated by the City Attorney of Torrance, the Legislative Counsel of California has rendered an opinion which differs from the League's analysis just presented. The following are two excerpts from that opinion:

> "In view of the conflicting and nebulous discussion of "special taxes," it is difficult to define precisely what the term is supposed to mean in Section 4 of the initiative.
>
> "However, we think that, in general, a special tax will be determined by the purpose for which it is imposed, rather than by the nature of the tax. For example, counties are presently authorized to impose a sales tax at the rate of 1 and one-quarter percent on the gross receipts of retailers derived from the sale of tangible personal property (subd. (a), Sec. 7202, R. & T. C.). The revenue derived from the rate in excess of 1 percent is reserved for the "special" purpose of assisting local transportation (Sec. 29530 et seq., Gov. C.), while the balance of such revenue is county "general" funds, which may be used for any lawful county purpose.
>
> "In other words, if the Jarvis-Gann Initiative is adopted, we think an increase in a county's sales tax to provide additional funds for transportation would be a "special tax" requiring two-thirds approval of those voting on the issue, while an increase in such tax for county general fund purposes could be accomplished by the board of supervisors without submitting such increase to the voters.
>
> "This reasoning, if approved by the courts, would make it possible for local governmental entities which provide general governmental services to impose a wide variety of taxes for general fund purposes without submitting the question to the voters, if the taxes can be reasonably adapted to local imposition."

* * *

"Thus, although we cannot precisely define a "special tax," as such term is used in the Jarvis-Gann Initiative, we think the following would apply to such a tax.

"(a) Counties, general law cities, special districts, including school districts, and chartered cities governed by general laws on tax matters will not be able to impose any tax without specific authorization from the Legislature.

"(b) None of the above entities, including all chartered cities, will be able to impose a tax preempted by the state, either by the Constitution or by statute, unless the Legislature enacts appropriate legislation. As will be noted below, an insurance tax, a real property transfer tax, and an ad valorem property tax could only become a special tax if the Constitution would be subsequently amended to provide therefor.

"(c) A general tax imposed by a county or city to raise revenues for its general fund would not be a special tax and could be validly imposed by a board of supervisors or a city council without a vote of the people.

"(d) Some districts created for a single purpose have no "general" functions, and, therefore, any otherwise permissible tax would require a two-thirds vote, as the tax would be imposed for a "special" purpose."

Effect of 2/3 Vote Requirement

Proposition 13 requires two-thirds of the "qualified electors" to approve special taxes. While there is much speculation about the definition of "qualified electors," many are equating the term to mean "registered voters." Assuming this interpretation is sustained, the effect of the 2/3 requirement can be understood by considering voter turnout figures for recent elections. In the general presidential election of 1976, it would have taken 81% of those voting to approve a special tax. Less than 20% of the voters could have blocked the imposition of a tax. In the municipal elections held this spring, with an average turnout of 31%, it would have taken over 200% of those voting to achieve the required approval by 2/3 of the registered voters.

It will obviously be very difficult for local agencies to impose or increase "special taxes."* The proposition's proponents view this with satisfaction, the opponents with anxiety.

Recommendations

1. Consider the economic and political implications of converting certain taxes currently imposed to a base and rate that will reflect economic growth. In this light, a business tax based on gross receipts would be preferable to a flat rate tax. A development tax based on the cost of construction would be preferable to a flat rate per bedroom.

2. Consider the advisability and feasibility of converting garbage charges based on occupancy to a garbage collection fee based on service.

3. Consider the economic and political implications of adjusting the base and/or rate of existing taxes or imposing new taxes prior to July 1, 1978, when the 2/3 requirement would take effect.

---

*General law cities, and those cities whose charters contain a provision similar to Government Code Section 36937, should be mindful of the possibility of imposing or increasing "special taxes" in the June 7-June 30 interim prior to the July 1 effective date of Section 4 of Proposition 13. Section 36937 provides that an ordinance "relating to taxes for the usual and current expenses of the city" takes effect immediately.

Examples of Proposed Tax Increases

Many cities are proposing or have implemented tax and fee increases in preparation for revenue reductions resulting from passage of Proposition 13. The following provide a few examples.

Milpitas:

New Taxes and Fees

Transient Occupancy
Gaming and Vending Machines
New Residential Development
Fire Prevention Inspection Fees

Increases in Existing Fees

Recreation
Zoning and Subdivisions

Pasadena:

New Taxes and Fees

Gross Receipts Business License Tax

Increases in Existing Taxes and Fees

Sewer Use Charges (From $12 - $22)
Ambulance Fees (from $25 - $45)
Building Permit Fees (1% valuation)
Overdue Books (from 5¢ to 10¢)
Utility Users Tax (100% increase)
Business Tax (20% increase)
Construction Tax (50% increase)

Sacramento:

New Taxes and Fees

Entertainment Tax (on all ticket sales)
Payroll Tax (patterned after Oakland's)
Utility Users Tax on City-Owned Utilities
Park Development Fee/Modification

Increases in Existing Taxes and Fees

Utility Users Tax on Non-City Owned Utilities
Business Operations Tax
Transient Occupancy Tax

Monrovia

New Taxes and Fees

Hotel-Motel Tax
Franchises: garbage, taxi, ambulance, etc.

Increases in Existing Fees and Taxes

Business License - Extension and Increase (100%)
Animal Licenses (200%)
Building Permit Fees (100%)
Electrical Permits (100%)
Air-Conditioning Permits (100%)
Excavation Permits (100%)
Plumbing and Sewer Permits (100%)
Rents and Concessions (5%)
Police Services (100%)
Community Center Fees (100%)

Examples of Other Contingency Plans

Examples of cities that have prepared contingency plans which do not include proposed local tax increases are:

Santa Barbara:

A "base-line" budget containing no revenue from property taxes has been proposed. Reductions will all be in general fund expenditures. The general fund budget will be $14.5 million with 470 positions, compared to the current year's budget of $16.1 million and 544 positions. In the event revenues are higher than anticipated in the base-line budget, an "add-on" plan has been prepared which would restore a maximum of $1.3 million and 46 positions to the general fund budget.

San Anselmo:

Within an overall reduction to an expenditure level 32% below the reduced level otherwise recommended, the alternative budget shows specific reductions as follows:

	% Reduction
Town Council	60%
Capital Improvements	53%*
Library	46%
Parks & Recreation	46%
Community Center	38%
Street Maintenance	35%
Planning, Engineering, Inspection	32%
Administration	30%
Police	26%
Attorney	23%
Fire	21%
Non-departmental	9%
Contingencies	-0-%
Weighted Average	32%

*Zero in future years. In 1978-79 contractual commitments must be met.

CITY HALL • 303 WEST COMMONWEALTH AVENUE •
FULLERTON, CALIFORNIA 92632 • PH. (714) 525-7171

June 2, 1978

Honorable City Council
City Hall
Fullerton, California

Re: Council Agenda - June 2, 1978

Subject: REVENUE ITEM ADJUSTMENTS

Pursuant to Council direction on May 30, 1978, several resolutions and ordinances have been prepared for consideration and adoption at the special meeting of June 2, 1978. Both the resolutions and ordinances have been prepared to take effect immediately. The firm of Rutan and Tucker has reviewed and approved each of the items as to form and compliance with applicable regulations.

	Description	Previous Rates	New Rates	Added Annual Revenues	
1.	Oil Extraction Business Tax	2¢ per bbl.	5¢ per bbl.	$ 50,000	
2.	Transient Occupancy Tax*	5%	6%	40,000	
3.	Sanitation Fees	20%	25%	71,000	Maintenance
				166,000	Cap. Outlay
4.	Visa letters	0	$5 per letter	$ 900	
	Fingerprinting services	0	$3 each	5,400	
	Verification of loss requests	0	$1.50 each	500	
	Vehicle release authorizations	0	$5 each	4,900	
	Vehicle verifications	0	$3 each	150	
5.	Fire code permits	0	Various	50,000	
6.	Bicycle licenses	$1 per yr.	$2 per yr.	5,000	
7.	Fireworks stands	$10	$50	1,000	
8.	Xmas tree lots	$10	$50	1,000	
9.	Zoning, Planning fees			25,000	
10.	Mechanical, plumbing & electrical fees			35,000	
11.	Engineering fees			30,000	
12.	Police alarm permits	Various	Various	6,700	
	Fire alarm permits	Various	Various	5,400	
				$497,950	

*Allowable use expanded to include funding of Park operations.

General Fund	$291,950
Transient Occupancy Tax	40,000
Sanitation Cap. Outlay Fund	166,000
	$497,950

Also attached is a schedule of use fees adopted by the Library Board of Trustees as of June 1, 1978. These fees are estimated to return $15,000 of added revenue to the Library per year.

Lastly, a revised ordinance for increasing the dwelling tax rate has been prepared.

RECOMMENDATION

That the various ordinances and resolutions implementing the above changes be adopted.

Respectfully submitted,

Leslie R. White
City Manager

LRW:WCW:ms
Attachs.